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Report Highlights:
Venezuela's sugar production does not meet demand. The lack of incentives to plant more area to sugar cane is defined by the existence of controlled prices at the retail level and increasing costs of production. Imports of raw and refined sugar are expected to continue in order to keep up with demand.

In November 2005, the Government of Venezuela proposed the "Ethanol Project." This project is intended to plant 300,000 hectares to sugar cane in three years, in order to increase domestic production of ethanol.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Caracas [VE1]
[VE]

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Executive Summary

Venezuela's sugar production does not meet domestic demand. The lack of incentives to plant more area to sugar cane is defined by the existence of controlled prices at the retail level and increasing costs of production. Nevertheless, during 2005/06 there was an effort from growers and millers to achieve better yields as well as to increase sugar content of sugar cane. Imports of raw and refined sugar are expected to continue in order to keep up with demand.

Government policies to boost the sugar sector have been proposed several times, but few of these plans have materialized. The most relevant example is the "Ezequiel Zamora Agroindustrial Sugar Complex" that has been under construction since 2000. As of 2006, this sugar complex is not yet completed and is currently under investigation due to corruption allegations.

On November 2005, the government proposed the "Ethanol Project". This project is intended to plant 300,000 hectares to sugar cane in three years, in order to increase domestic production of ethanol. The sugar industry, represented by independent growers and sugar millers, remain skeptical of the feasibility of the ethanol project and has proposed an alternative project to increase production. The sugar industry is proposing to plant 5,000 hectares of sugar cane per year, during a five-year period and revising retail prices on a yearly basis.

PRODUCTION
Sugar production for 2005/06 is estimated at 650,000 tons, eight percent more than projected previously (see GAIN report VE5008). The overall increase in production is largely due to better technical assistance and good weather (hot and dry). Because of the controlled price of sugar at the retail level, cane growers and millers have worked together in order to reduce production costs through achieving better yields and higher sugar content of the sugar cane. While there had been some increases in area planted to sugar cane, specifically in the states of Zulia and Portuguesa, it has not had a significant effect in overall sugar production.

The majority of sugar cane plantings is carry out by independent growers in small to medium size lots (average area of 45 hectares). The sugar industry states that small to medium size lots account for more than 80 percent of cane plantings. Because of the small size of the lots planted to sugar cane, providing technical assistance to growers is key to increasing production. Usually sugar mills provide the technical assistance. There are 14 sugar mills operating in Venezuela.

Cane harvest takes place from November through April and from June through November. The first harvest is responsible for about 70 percent of the cane cut in Venezuela, and the second harvest for the rest. Two Venezuelan mills, Central La Pastora and Central Carora, located in Lara State in the northwest, have plantations on which cane can be harvested all year long. Despite having extensive lots of land for cane plantings and appropriate weather, domestic production is not sufficient to meet demand. Historically, between 70 to 75 percent of the country's sugar demand is met by domestic production.

Production forecast for 2006/07 is to increase by approximately 3 to 4 percent as compared to 2005/06 in response to efforts from the industry to promote more plantings and obtain better yields.

Currently, the following institutions represent the Venezuelan sugar industry:
- FESOCA: Venezuelan Federation of Sugar Cane Growers' Associations (in Spanish: Federación Nacional de Asociaciones de Cañcultores de Venezuela)
- UPAVE: Venezuelan Sugar Producers Association (in Spanish: Unión de Productores de Azúcar de Venezuela) and the
- VENAZUCAR: Venezuelan Sugar Producers and Refiners Association (in Spanish: Asociación Venezolana de Productores y Refinadores de Azúcar)

POLICY
During the past seven years, the Government of Venezuela (GOV) made several promises to boost sugar production by increasing area planted, building more sugar mills and expanding access to agricultural loans and providing technical assistance to cane growers. The government's intention is to reduce or eliminate imports of sugar in the near future. Currently, few of these plans have materialized.

All government plans to increase sugar production include a technical assistance component, generally provided through the Government of Cuba. The guidelines for this cooperation were set back in October 2000. At that time, both governments signed an agreement to exchange Venezuelan petroleum for Cuban assistance in the areas of agriculture, tourism and recreation. This agreement also mentioned the construction of three sugar mills with the assistance of Cuban technicians.

The first sugar mill to be built under this agreement was the "Ezequiel Zamora Agroindustrial Sugar Complex" (in Spanish: Complejo Azucarero Agroindustrial Ezequiel Zamora, or

CAAEZ). As construction began in 2000, the government stated that it was going to be one of the most modern sugar mills in Venezuela. According to different press articles, as of March 2006 the CAAEZ is not completed and is plagued with a corruption allegation.

On November 7, 2005, the Venezuelan Agricultural Corporation (in Spanish: Corporación Venezolana Agraria, or CVA) announced the "Ethanol Project." The project is intended to increase domestic production of ethanol from sugar cane plantings. A brief description of the "Ethanol Project" is presented below:

- Total cost of the project is estimated at $150 million (this is 323 billion Bolivars).
- Approximately 236,000 to 300,000 hectares of land will be planted to sugar cane.
- Construction of fifteen new sugar mills.
- Each sugar mill will have a refining capacity of approximately 6,900 to 8,000 tons of sugar cane per day.
- It will involve 9 Venezuelan states: Apure, Barinas, Cojedes, Guárico, Mérida, Monagas, Portuguesa, Trujillo and Zulia.
- It will involve 96 small to medium size towns, in approximately 49 counties.
- During 2006, 45,000 new direct jobs and 15,000 indirect jobs will be created.
- It will create 240, 000 new jobs in three years.
- Only small to medium size cane growers are entitled to participate in this project.

The four phases of the "Ethanol Project" are briefly described in the following table:

ETHANOL PROJECT PLANNING PHASES

Phase	Activity Description	Duration	Effective dates
Phase I	Locating appropriate land	45 days	Concluded on August 2005
Phase II	Variety Selection	137 days	To be completed on December 15, 2005
Phase III	Soil studies, establishing land lots	210 days	To be completed by June 2006
Phase IV	Preparing land, soil studies, planting sugar cane, building irrigation systems	365 days	To start on January 2006 and to be completed on December 2006

Source: Agencia Bolivariana de Noticias (Bolivarian News Agency) 10/27/05 and 11/07/05

According to the Bolivarian News Agency (ABN), the governor of the State of Apure, recently visited Cuba in order to proceed with the above-mentioned "Ethanol Project". Mr. Aguilarte held meetings with the following Cuban institutions:

- Instituto de Investigación de la Caña
- Instituto Cubano de Investigación de los Derivados de la Caña de Azúcar
- Instituto Cubano de Investigación Azucarera.
- Instituto de Ciencia Animal
- Centro de Salud Agropecuaria
- Destilería de Alcoholes de Cien Fuegos
- Asociación Nacional de Agricultores Pequeños
- Ministerio del Azúcar de Cuba

Additionally, on March 24, 2006, the governor of Apure signed a technical assistance agreement with the Government of Cuba. The technical assistance agreement calls for:

- Planting 15,000 hectares to sugar cane
- Building an ethanol processing plant in the area of Biruaca-Achaguas (State of Apure) to be completed by 2008.

- Technicians from the State of Apure will be trained in Cuba in planting, harvesting, and processing plant operations.

The Venezuelan sugar industry presented an alternative plan to the government. The project presented by the sugar industry consists of a five-year plan to increase sugar cane plantings. The industry is projecting a total area growth of 25, 000 hectares, by planting 5,000 hectares each year of the project. The industry is requesting better financing terms for small growers, lower prices for fertilizers and other inputs, and a yearly increase of sugar prices for both growers and millers.

STOCKS

Sugar stocks are expected to remain at below normal levels through most of 2006 because retailers and wholesalers alike are unwilling to keep normal inventory levels for fear of being accused of hoarding by the government. Spot-shortages are not expected in the short term, but possibilities exist if import licenses are not issued in a timely fashion. Currently, the government continues to assess sugar availability before issuing import licenses. In addition, the government can increase its level of imported refined sugar, in order to prevent shortages. Most of these imports come from Colombia.

CONSUMPTION

For several years now, sugar consumption in Venezuela has been stable at around 700,000 to 800,000 MT. The sugar industry expects consumption to keep its upward trend in the upcoming years. As retail prices of sugar continue to be kept artificially low, there is no major disincentive to reduce domestic consumption of refined sugar. This report estimates an increase in sugar consumption of two percent in 2005/06 and 2006/07.

There is a relation of about two-thirds of sugar for household consumption and the balance being directed to the industrial food sectors. Industrial consumption of sugar is oriented to the soft drink and food processing (cookie, crackers and confectionary) industries. The Venezuelan soft drink industry uses a 100% sugar without any fructose or other sweetener for its non-diet beverages.

Prices

Refined sugar continues to be under the retail price control policy established by the GOV in 2003. Cane and refined sugar prices are set through the National Sugar Board (Junta Nacional del Azucar).

Initiated by the government during mid 2003, the National Sugar Board is responsible by law to review criteria for setting fair prices for cane and refined sugar. The National Sugar Board is composed of representatives from the sugar cane growers, sugar millers, retail, consumers and government sectors. Since 2004 the National Sugar Board's recommendations to increase the retail price of sugar have not been implemented by the government.

An increase of 25 percent in the price of refined sugar was effective on December 29, 2005, twenty months after the last price increase. The price went from 1,035 to 1,300 Bolivars per kilo (in dollar terms is from 49 cents to 61 cents per kilo). The following table presents the different price increases for refined sugar:

Venezuela's Retail Price for Refined Sugar (in Bolivars)				
Presentation	**2 Kilo bag**	**1 Kilo bag**	**900 grams**	**800 grams**
02/11/2003	1,700	900	800	700
04/15/2004	1,955	1,035	920	805

11/11/2005	2,050	No change	No change	No change
12/29/2005	2,600	1,300	1,170	1,040

TRADE

During 2004/05 Venezuela imported approximately 195,000 tons of sugar. This is 14 percent less than the imports registered in 2003/04. The forecast for 2006/07 is for 180,000 tons of imported sugar. The sugar industry agrees that the downward trend of imports is the result of the work carried by the National Sugar Board. After the main sugar cane harvest, the board determines a reasonable level of imports, based on the amount of sugar cane received by each sugar mill. The board recommends the level of imports and the government awards import licenses in line with that level.

However, because the government is now more involved in providing cheap food products to consumers through direct imports, it is also carrying imports of refined sugar. Currently, the majority of imports of refined sugar are carried out through the GOV's procurement entity, CASA. Official data about government imports of refined sugar are not available to the public. As mentioned in other commodity reports, the role of the government as a reliable and secure food supplier is currently subject to its ability to develop and increase its food distribution systems and to continue imports of food products.

Traditionally, most imports of sugar enter the country between harvests, i.e., in April, May and June. Major suppliers are Colombia, Guatemala, El Salvador and Nicaragua.

Tariff Rate Quota's and Import Licenses

Under its World Trade Organization commitments, Venezuela is entitled to administer a tariff rate quota (TRQ) of up to 132,013 tons of sugar with a tariff rate of 40 percent. The TRQ is administered through an import license scheme that is managed by the Ministry of Food (in Spanish: Ministerio de Alimentación or MINAL). The TRQ for sugar is allocated through an import license regime specified in an Official Notice published in a local newspaper.

Import licenses are awarded to mills based on the percentage of sugar cane received and milled. Import licenses are valid for four months, and can only be renewed if, on expiry, they have not been used for reasons outside the importer's control. When applying for a license, established importers must submit to MINAL a monthly list of imports actually realized, indicating volume and value, together with the invoice on the most recent import, also indicating the volume and value of the merchandise in question. The importer must indicate the amount of the allocated quota that remains unused, which in some cases is reincorporated into the quota to be reassigned. Information on import license requirements can be reviewed (only in Spanish) through the following address: *http://www.minal.gob.ve/view/docs/licemport.pdf*.

Tariff Changes *(unchanged from last report)*

Raw and refined sugar coming from the Andean Community enters Venezuela duty free. Bilateral agreements signed between Venezuela and Guatemala, Nicaragua and El Salvador also gives sugar from these countries duty free entry.

The present base tariff on sugar is 15 percent ad valorem calculated on the CIF price basis. Sugar is included in the Andean Community price-band variable-levy system. This tariff system was implemented by Venezuela for sugar and several other agricultural products in September 1995. The base tariff is raised if the CIF price is below a floor price, and lowered if prices surpass a ceiling price. White and refined sugars have different prices within the price band system. Floor and ceiling prices are based on average prices for white sugar, contract No. 5 FOB London during the last five years.

Tariff Exoneration
Import tax exoneration for sugar imports (HS 1701.11.90) was granted from 2003 until mid 2005. This measure is no longer valid.

Non-Production Certificates
According to Official Gazette Nº37,617, dated 01/24/2003, importers interested in importing basic commodities, including sugar, must request a "certificate of non-production" or a "certificate of insufficient production" through the Ministry of Industry and Commerce (in Spanish: Ministerio de Industrias y del Comercio, or MILCO). These certificates state that a certain product is not domestically produced or there is not enough domestic production of it. These certificates allow importers to request foreign exchange for its imports, request import licenses and import permits from other government offices.

PSD TABLES

Venezuela Sugar, Centrifugal							
	2005	Revised	2006	Estimate	2007	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		09/2004		09/2005		09/2006	MM/YYYY
Beginning Stocks	225	225	220	223	0	208	(1000 MT)
Beet Sugar Production	0	0	0	0	0	0	(1000 MT)
Cane Sugar Production	600	650	600	670	0	700	(1000 MT)
TOTAL Sugar Production	600	650	600	670	0	700	(1000 MT)
Raw Imports	240	195	250	180	0	175	(1000 MT)
Refined Imp.(Raw Val)	20	28	20	30	0	30	(1000 MT)
TOTAL Imports	260	223	270	210	0	205	(1000 MT)
TOTAL SUPPLY	1085	1098	1090	1103	0	1113	(1000 MT)
Raw Exports	0	0	0	0	0	0	(1000 MT)
Refined Exp.(Raw Val)	5	5	5	5	0	5	(1000 MT)
TOTAL EXPORTS	5	5	5	5	0	5	(1000 MT)
Human Dom. Consumption	855	865	860	885	0	905	(1000 MT)
Other Disappearance	5	5	5	5	0	5	(1000 MT)
Total Disappearance	860	870	865	890	0	910	(1000 MT)
Ending Stocks	220	223	220	208	0	198	(1000 MT)
TOTAL DISTRIBUTION	1085	1098	1090	1103	0	1113	(1000 MT)

Venezuela Sugar Cane for Centrifugal							
	2005	Revised	2006	Estimate	2007	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		09/2004		09/2005		09/2006	MM/YYYY
Area Planted	115	115	115	115	0	120	(1000 HA)
Area Harvested	115	115	115	115	0	120	(1000 HA)
Production	6880	6880	6880	7500	0	7800	(1000 MT)
TOTAL SUPPLY	6880	6880	6880	7500	0	7800	(1000 MT)
Utilization for Sugar	6880	6880	6880	7500	0	7800	(1000 MT)
Utilizatn for Alcohol	0	0	0	0	0	0	(1000 MT)
TOTAL UTILIZATION	6880	6880	6880	7500	0	7800	(1000 MT)

TRADE MATRIX

Venezuela Sugar, Centrifugal			
Time Period	**Sep/Aug**	**Units: 1,000 tons**	**Sep/Aug**
Imports for:	**2004**		**2005**
U.S.		U.S.	
Others		Others	
Colombia	223	Colombia	79
		Guatemala	116
Total for Others	223		195
Others not Listed			
Grand Total	223		195